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SUBJECT: DROPPING DOLLAR RAISES PROSPECTS IN TULCAN

**¶1.** SUMMARY: Tulcan, capital of Ecuador's Carchi province, bestrides the Panamerican Highway four hours from Quito and four miles from Colombia. Like frontier towns worldwide, Carchi's capital enjoys its share of money changers, truck stops, and customs checkpoints, most visitors clocking in for hours, not days. Yet the nearby redoubt of Colombia's illegal armed groups makes this border burg different from most. Ecuadorian security forces are omnipresent, for one; Embassy monies and expertise have stood up counter-narcotics checkpoints along Carchi highways, and Tulcan hosts a large and growing Army battalion responsible for border security in the highlands. Local leaders claim the deployments have spawned dropping crime rates, but overcoming Tulcan's reputation and attracting tourism and investment remains difficult. All agreed the municipal economy had rebounded from the battering that 2001's dollarization had brought. The dropping dollar, not fundamental improvements in the business climate, underpinned Tulcan's gains, however. A public health officials claimed Carchenses' physical condition surpassed national norms, yet the provincial bishop lamented residents' spiritual health. Last, attitudes towards Colombians had improved, owing perhaps to an expected refugee surge that never materialized. END SUMMARY.

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Location Good and Bad  
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**¶2.** Shrouded often in mist and drizzle, Tulcan, population 52,000, is Ecuador's highest provincial capital (9700 feet). Unlike frontier peers in neighboring Sucumbios and Esmeraldas provinces, the city enjoys excellent road links to Ecuador's most populous areas via its privileged location along the Panamerican Highway 150 miles north of Quito. Agricultural production thrives in surrounding Carchi province, owing to ever-present rains and rich volcanic soils; its potatoes are the nation's finest. Small land plots, high fertilizer prices, and significant pesticide use make Carchi crops expensive, however, especially compared to similar production in neighboring Narino. Despite the aforementioned road net and closeness to Quito, Tulcan has proven unable to attract industry, instead living off border commerce and government spending. As such, its economic health depends greatly on notoriously volatile exchange rates.

**¶3.** Five miles north lies Ipiales, Colombia, in appearances a slightly-bigger Tulcan brother. When the Colombian peso strengthens, Ipiales-area consumers historically flock south in search of bargains, benefiting Carchi merchants. When it weakens, however, the flow reverses. Ecuador's repeated devaluations in the 1990s proved a boon to Tulcan, and retail businesses expanded to serve Colombian customers. The GoE decision to ditch the sucre and dollarize the economy therefore hit the city hard. Prices skyrocketed overnight, Colombian border-crossers canceled travel, and Tulcan's economy contracted. Embassy officers visiting in September 2002 saw shuttered shops and few shoppers, a general malaise in the air.

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Economic Indicators Improving, Grudgingly  
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**¶4.** Emboffs traveled to Tulcan May 30-June 2 to gauge the province's economic pulse and security situation. Provincial and municipal leaders described a region in recuperation, albeit gradual. Mayor Pedro Velasco, a second-term United Left (ID) politician, claimed consumption was rising and businesses returning to Tulcan. Reasons were two: the Colombian peso, trading at 2900 per dollar in 2003, had strengthened 20 percent since. Colombian shoppers from Ipiales and even Pasto were bringing business to suddenly-cheaper Tulcan, and northern investors were plowing money into Ecuador. The second was psychological; Carchenses finally had accepted dollarization, and instead of pining for a return to devaluations, had committed to compete. Nevertheless, currency-neutral production costs, especially in agriculture, remained lower in Narino than Carchi, and Velasco worried a rising dollar could erase recent gains. Further, too many city residents continued to depend on contraband for their livelihoods; cracking down on illegal border crossers spelled economic doom for Tulcan's marginalized, however.

**¶5.** Second-term Prefect Rene Yandun (ID), a former Army

general, sounded even less sanguine over Carchi's chances. Internal migration, mostly to Quito and Santo Domingo de los Colorados, was robbing the province of its economic wherewithal. Carchi's population, estimated at 200,000 in 1995, had dropped 25 percent in ten years, hollowing out its workforce, especially in agriculture. Prosperity lay not in working the land, however, but in attracting industry and tourism. On the latter, Yandun argued that Carchi's volcanoes, vistas, and indigenous culture were the equal of any Ecuadorian province's. Yet rumors of widespread Colombian narcoterrorist incursions poisoned the tourism environment; such fear caused southbound travelers to bypass Tulcan for Imbabura capital Ibarra, while Colombia-bound visitors overnighted in Ipiales or Pasto.

¶ 16. April's administration change brought new governors to the provinces; President Palacio's Carchi representative, Bolivar Chamorro, was but one month in office upon meeting with Poloff. The one-time educator displayed world-class braggadocio in claiming that friction between the governor's, prefect's, and mayor's offices had ended upon his assumption of power. Such animosity had hampered economic development in the province, Chamorro explained. The governor touched on the same problems Yandun and Velasco had, adding one of his own: Carchi's poor education system. Primary and secondary school quality was horrific, and the province lacked a full-time university. Attracting one was a primary goal.

¶ 17. Public health issues are not a brake to provincial economic development. Dr. Ruth Velasco, a 13-year Ministry of Health official in Tulcan, claimed Carchenses' physical condition exceeded national norms. Outbreaks of malaria and dengue, constant worries along Ecuador's coast and in lower-elevation parts of the sierra, were no worry in 9,700-ft Carchi. Nor was tuberculosis, troublesome in high sierra indigenous communities. Velasco lauded MoH initiatives to vaccinate the entire provincial population and educate prospective mothers in effective prenatal care, which had earned the ministry significant goodwill.

¶ 18. Carchi's preeminent Catholic priest questioned his flock's spiritual health, however. Bishop Luis Sanchez, a Loja native, had called Tulcan home for three years. Church attendance by confirmed Catholics had averaged 12 percent during his tenure, a disappointing figure. "Sects" saw fertile ground in Carchi, Sanchez lamented, referring to evangelical, Protestant groups such as the Seventh Day Adventists and Mormons. In response, the twenty-odd parishes within his diocese were expanding outreach activities, although the challenge looked difficult. Roman Catholic pastoral activities too were suffering. External funding -- mainly, a grant from the German church he had dedicated to women's issues -- had evaporated, and the bishop had been unable to identify alternatives. Sanchez hoped to continue assisting Carchi's resident Colombian refugee population, but natives' protests over expending limited funds on foreigners limited his actions.

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Carchi Growing More Secure?

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¶ 19. Post's Narcotics Affairs Section (NAS) directs large chunks of USG counter-narcotics (CN) assistance to Ecuador's northern border. After reconnoitering the construction site of a NAS-funded CN checkpoint along the Carchi-Imbabura frontier, Emboffs met with Carchi CN police commander Patricio Guerra and later visited his troops and facilities. Guerra, a rising police star, revealed plans for a two-week, round-the-clock CN operation targeting provincial highways. As nationwide drug interdictions had dropped 60 percent from year-earlier totals, he was pushing his men (and women) hard for results. Guerra called cooperation with his Colombian counterpart top-notch, but claimed Ecuadorian police-military coordination was still lacking -- Carchi-based armed forces still misunderstood their CN role, he lamented.

¶ 10. Numerous clandestine frontier crossings compromised police efforts to disrupt southbound drug trafficking, Guerra asserted. Traffickers even used trained, riderless mules and horses to ferry product, limiting their legal exposure. That said, days before his team had interdicted smugglers carrying \$15,000 in Colombian pesos (and during Emboffs visit, they apprehended a trafficker concealing five kilos of coca base beneath a crate of live chickens). To improve CN forces' capabilities, Guerra presented Emboffs a reasonable, well-thought-out assistance request; topping the list was a heavy truck to allow squad-sized, far-ranging patrols.

¶ 11. The 39th Army battalion in Tulcan has responsibility for patrolling the highlands stretch of the Colombian border. NAS and the Embassy's MILGP donated five five-ton trucks and 12 Humvees to the 39th in 2004, increasing the unit's ability to patrol frontier areas facing guerrilla and paramilitary threats from Colombia. Battalion commander Colonel Ramon

Enriquez informed NAS director that he had 400 troops in the field on a training exercise at the moment, and that additional communications equipment was his greatest need. The NAS Director inspected a USG-funded maintenance hangar project on his base, and discussed methods to improve fuel supply and inventory control.

¶12. Civic leaders also weighed in on security matters in Tulcan and surrounding Carchi province. All agreed the region, while not exactly Bern, was not Baghdad either -- sensationalist media outlets in Quito and Guayaquil needed to get the facts right. Yet problems remained that threatened the nascent economic recovery. Mayor Velasco, after noting police would not crack down on "contrabandistas," acknowledged that drug traffickers often utilized the same illegal border crossings. He refuted rumors claiming the FARC utilized Tulcan for resupply and R&R, however, arguing the Colombian rebels preferred smaller hamlets east and west. Concurring with Colonel Guerra on police-military coordination problems, Velasco asserted the armed forces, greater funding and shinier toys had spawned police jealousies.

¶13. Yandun praised a recent Ecuadorian military decision to deploy 450 additional soldiers to the Tulcan battalion. NAS-provided CN police support also earned his gratitude. Carchi residents continued to feel threatened, however, by the closeness of Colombian irregulars and "copycat" Ecuadorian criminal gangs plaguing rural regions. Yandun claimed that kidnapping rings' activities had forced large landowners to flee, selling their properties at a loss and driving down land prices. Bishop Sanchez agreed the kidnappings were continuing, albeit at a lower rate than three years before; he had demurred, however, when asked recently to broker a ransom and release.

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Colombians Still Coming  
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¶14. Gerardo Dorado runs the GoC's consulate in Tulcan. While Plan Patriota had not spurred significant refugee movements as many had expected, Colombians continued to head south for economic reasons. Dorado claimed that Carchi employers preferred harder-working, cheaper Narino laborers. Most were illegal, however, and subject to exploitation. Regularization duties therefore consumed much of his days.

¶15. Three years ago, Dorado's predecessor claimed Ecuadorian border officials regularly mistreated southbound travelers at the Rumichaca International Bridge. The situation had improved somewhat, the Consul revealed, but GoE personnel continued to hassle Colombians and not honor Andean freedom of movement stipulations. His countryman also received stiffer sentences for drug offenses than Ecuadorians -- some 250 inhabited the Tulcan prison, each serving minimum eight-year terms.

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COMMENT:  
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¶16. Our primary desire in visiting Tulcan lay in gauging the security situation, measuring Carchi's economic recovery, and ground-truthing the value of USG CN assistance. But we had bigger-picture reasons as well. Claims that Ecuador has adopted a more independent, less servile foreign policy litter Quito airwaves and front pages. In his Cabinet appointments, President Palacio named gringo-bashers and sovereignty protectors, with Ecuador's "involvement" in Plan Colombia proving a convenient target for their rantings. We therefore endeavored to learn whether demands for a return to isolationist old-think vis-a-vis Colombia had translated into a troop pullback or more tepid force posture. Thankfully, it has not; if anything, front-line Ecuadorian police and military appear more energized than ever. If we had one hundred Colonel Guerras, for example, we'd be writing a requiem on the demise of Ecuador's drug problem. Sometime USG-detactor Mayor Velasco put it best. "Sometimes good does come from bad," he remarked, referring to greater Quito attention to frontier problems, owing to worries of Colombian spillover. Our intention is to ensure the Government of Ecuador remains focused on its northern border. END COMMENT.

Kenney